

RELIABILITY & SUPPLY ADEQUACY FRAMEWORK FOR THE EAST COAST GAS MARKET – STAGE 2

13 JULY 2023

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Our membership covers most of the major gas users in the east coast gas market who all rely on reliable and competitively priced gas for their business sustainability. This has long not been the case through a combination of restrictions on the development of new gas supply sources and the exercise of market power by gas producers that has long highlighted in ACCC Gas Reports. We have been a strong supporter of the Mandatory Gas Code and look forward to that contributing to members being better able to source that reliable and competitively priced gas.

This short submission gives the EUAA's high level views on the main aspects of the Stage 2 proposals. We have previously made submissions on stage 1 of this process to give AEMO extensive powers in the east coast gas market. In that submission we:

- Expressed our concerns about giving AEMO broad and discretionary powers in the gas market without a clear economic justification,
- The market should be left as much as possible to solve the supply issues with intervention as a very last resort, and
- noted that the proposed powers did nothing to increase the supply of gas, only to try to manage what is available and ensure it is in the right location at the right time.

Since then, we have seen the introduction of a revised ADGSM and a Mandatory Code with its obligation on producers to actually supply rather than offer to supply. This, combined with the AEMO powers should give more confidence that the right amount of gas will be at the right location at the right time. But then the effectiveness of any powers that AEMO has is limited by physical constraints in pipeline capacity from Queensland and storage capacity in Victoria. The Victorian ban on onshore development and the continuing hurdles to the Narrabri project in NSW at the same time as the forecast significant decline in Bass Strait production mean the proposed changes cannot 'fix' a market that is fundamentally short supply, let alone competitive supply.

We note that we have not had the time to comprehensively review the entire Consultation Paper with our members. The pace of change in energy markets and the expectations on consumers to respond to constant reform proposals is often beyond consumers' ability to respond. We are now seeing 'regulatory reform fatigue' with the increased risk of reform measures being introduced that have unintended consequences on the very consumers they are seeking to help.

We offer the following views on the major issues:

Reliability standard

- We support a probabilistic gas reliability standard based on annual unserved gas with the same standard applying to the whole east coast market; as with electricity, this type of standard takes account of frequency, duration and size of any shortage of gas
- We do not support simple deterministic standards like options 2 and 3 as these are likely to impose significant costs on consumers e.g. how does a peak demand measure handle frequency and duration of a shortage? We cannot understand how an N-1 standard would operate when there is limited redundancy in pipeline and storage capacity. A breach of any part of options 4 and 5 would mean a breach of the overall standard which has the same problem as options 2 and 3. The onus is on proponents of these forms to provide their business case
- The USG standard and the associated reliability settings (MPC, CPT and APC) should be set by an AEMC Gas Reliability Panel, not by AEMO; AEMO is conflicted by determining the standard and reliability settings at the same time as being the market operator
- The Gas Reliability Panel should have a membership reflecting all parts of the gas supply chain as is the case for the Electricity Reliability Panel and its considerations should take account of the NEM reliability settings to address the increasing interdependency across both markets that is highlighted in the Consultation Paper
- The Gas Reliability Panel, following [the lead of the electricity Reliability Panel](#), should provide an annual report on gas market performance
- The AER would set a gas VCR using a similar method to that currently used to set the electricity VCR in the NEM

ST, MT and Seasonal PASA

- We support AEMO preparing a ST and MT PASA and seasonal PASA reporting
- We suggest a rolling 12 month outlook for the MT PASA with an initial preference for Option 3B – though we would need more details on how this would work in practice and what it means for the obligations on our members e.g. use of existing information as much as possible and the provision of future demand on a best endeavours basis with very limited scope for penalties for non-compliance
- Given the significant information already provided under Rule 27, AEMO will need to ensure no overlap in information requests to support this forecasting
- There needs to be a consultation process on the details of how AEMO is to undertake the forecasts (e.g. following AER best practice forecasting guideline) and then those forecasts are subject to regular external review and assessment on accuracy and robustness – part of the role of the Gas Reliability Panel discussed above
- In our Stage 1 submissions we supported AEMO being able to obtain more comprehensive information on the risks around gas market reliability and security and then signal that information to the market and the GSARC structure and purpose. This information-gathering and signalling roles will only work with AEMO providing as much transparency to the market as possible
- We would also like to understand how the MT PASA relates to the GSOO

Threat signalling mechanism

- We support such a mechanism linked to the USG reliability standard and the NEM

- This will require a high level of transparency on how and why the threat has been issued to give confidence to the market that it is real and to users who pay the costs then there was no other option available

RSA contracting obligation

- We would caution on the application of EU standards to Australia; the EU market is a much larger, more liquid and more developed; the East Coast Australia balancing market design does not have the same tools at its disposal to manage demand/supply impacts; there could be an unintended consequence in AEMO creating market moving events through signalling potential issues on MT PASA that drive speculation on wholesale prices based on alert or emergency outcomes
- While this is only meant to directly apply to gas fired generators and retailers, we are concerned about the unintended consequences of C&I users trying to source gas for their operations at the same time as there is an RSA contracting obligation
- We do not support an RSA type contracting instrument due to it having a potentially very high cost to consumers e.g. the high spot/forward prices (not subject to the Mandatory Code ‘reasonableness’ requirement on price and terms) resulting from the obligation driving much higher electricity prices for the forecast shortfall period
 - [our submission](#) opposing an extension of the interim RRO showed this impact from AEMO’s declaration of a T-1 reliability event in South Australia for January/February 2024 that was subsequently withdrawn
- Obligating these parties to buy gas when there is insufficient gas forecast to be available in the market in the next 12 months will not help a supply shortfall; this is best addressed through other measures
 - to address an unexpected short-term shortage through producer obligations under the ADGSM
 - to reduce the likelihood of a short-term shortage occurring through producer obligations associated with their exemption from the Gas Mandatory Code
 - to reduce the likelihood of a shortage occurring in the longer term by approving new projects like Narrabri
- Forcing parties to contract for gas will also diminish the value of the spot market. AEMO should be concerned with supply/demand balance and not financial arrangements

Administered demand response mechanism

- We support a voluntary gas RERT type mechanism where AEMO could invite tenders to supply short notice RERT and gas users are paid to reduce their consumption; however, it should be recognised that many large gas users have limited ability to ‘turn down’ or ‘turn off’ their industrial processes even with a high VCR value
- This mechanism should not be used to mitigate more fundamental problems in gas supply that need a longer-term supply response
- Design should provide for an equitable and transparent allocation of cost to ensure the costs are borne by those market participants who contributed to the shortfall; costs should not be borne by gas buyers that are fully contracted when the demand response occurs
- We do not think a long notice RERT would work in the gas market, at least for our members

Supplier of last resort mechanism

- We do not support this as it will contribute to market distortion – the gas market does not have the supply flexibility of the electricity market - there are a lot more power stations in the NEM than gas pipelines; AEMO should not be able to contract longer dated gas, transport or storage capacity in competition with C&I users

- It has the same problem as the RSA contracting obligation – AEMO would be out in the market competing for gas and gas transport that may not be there to buy;
- We expressed a number of concerns in the Stage 1 consultation process about AEMO being in the market and competing against EUAA members and being willing to pay more than our members for what little gas might be available that only contributes further to the shortfall

Do not hesitate to be in contact should you have any questions.



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